



Govan Mbeki Municipality  
Annual financial statements  
for the year ended 30 June 2016

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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<b>Legal form of entity</b>	Municipality
<b>Mayoral committee</b>	
Executive Mayor	Masina LL
Chief Whip	Makhanye SA
Speaker	Gwiji CV
MPAC Chairperson	Mtshali PD
Members of Mayoral Committee	
	Khayiyana MZC
	Mahlangu BS
	Ngxonono YT
	Nkosi NE
	Nkambule FB
Councillors	Badenhorst HJ
	Bosch PR
	Botha C
	Buthelezi TM
	Denny TM
	De Vries GR
	Labuschagne PJ
	Fourie ME
	Mabena SS
	Mahlangu BD
	Mahlangu SS
	Majozi NE
	Makola MB
	Masango JM
	Masango SA
	Masina HS
	Masombuka SM
	Mathabe NM
	Mathebula SB
	Mayisa JS
	Mkhwanazi ZG
	Mkwebane ZA
	Mngomezulu MP
	Motaung AD
	Mtsweni LJ
	Mtsweni MJ
	Mtsweni TA
	MtsweniTP
	Mvundla WL
	Mzinyane TE
	Ndaba BB
	Ndinisa BJ
	Ndlovu SJ
	Nhlapho MD
	Nkabinde MA

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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	Nkabinde JB Nkokoane ME Nkosi MJ Nkosi NK Nxumalo Nj Ntuli GN Nzama PG Pretorius RJ Sibande ES Tlou DL Tsotetsi TJ Van Baalen JA Van Huyssteen NC Van Rooyen EJ Victor NS Vilakazi EA Viljoen M Zulu NN Zulu TS Zwane PJ
<b>Grading of local authority</b>	B4
<b>Capacity of local authority</b>	High
<b>Dermacation code</b>	MP307
<b>Chief Financial Officer (CFO)</b>	Mokgatsi JM
<b>Accounting Officer</b>	Mahlangu MF
<b>Registered office</b>	Central Business Area Horwood Street Secunda 2302
<b>Postal address</b>	Private bag X1017 Secunda 2302
<b>Bankers</b>	ABSA Bank Limited Standard Bank
<b>Auditors</b>	Auditor General South Africa
<b>Attorneys</b>	Cronje de Waal & Skhosana Attorneys Inc. Els Louw and Rasool Attorneys Ramathe MJ Attorneys TMN Kgomo and Associates Paul Masha attorneys

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

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### Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MPAC	Municipal Public Accounts Committee
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2016

### **Accounting Officer's Responsibilities and Approval**

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I, M.F. Mahlangu, accounting officer of the Govan Mbeki Local Municipality, am responsible for the preparation of the annual financial statements, which are set out on pages 5 to 84 in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Our opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements

The municipality's cash flow forecast for the year beginning 1 July 2015 to 30 June 2016 and, in the light of this review and the current financial position and revenue enhancement activities the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Accounting officer certify that the salaries, allowance and benefits of councilors as disclosed in the note of these Annual Financial Statement are within the upper limit of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers At, Act No.20 of 1998.

The annual financial statements set out on pages 5 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016.



**Mahlangu MF**  
**Accounting officer**  
**31 August 2016**

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2016.

### **1. Review of activities**

#### **Main business and operations**

The municipality is engaged in local government and operates principally in South Africa in the Mpumalanga Province.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 183 453 297 (2015: deficit R 138 103 641 restated).

### **2. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to bill revenue accurately to the consumers, collect the monies dues timeously and paying of service providers in time.

### **3. Subsequent events**

The accounting officer is aware of circumstances arising since the end of the financial year. Details of the events are disclosed in the notes of the annual financial statements.

### **4. Public Private Partnership**

The municipality did not have any public private partnerships as at end of reporting period.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	14	14 990 227	18 389 956
Consumer debtors	13	174 409 868	129 484 151
Inventories	10	9 897 552	10 700 700
Long term receivables	9	5 648 686	3 544 871
Receivables from exchange transactions	11	12 811 507	11 145 939
Receivables from non-exchange transactions	12	35 057 017	18 125 674
		<b>252 814 857</b>	<b>191 391 291</b>
<b>Non-Current Assets</b>			
Investment property	3	1 260 861 000	1 279 786 000
Property, plant and equipment	4	2 124 707 533	2 208 375 983
Intangible assets	5	2 218 742	983 943
Heritage assets	6	5 428 407	5 428 711
Other financial assets	7	10 419 663	9 815 299
Long term receivables	9	60 496 930	24 357 399
		<b>3 464 132 275</b>	<b>3 528 747 335</b>
<b>Total Assets</b>		<b>3 716 947 132</b>	<b>3 720 138 626</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	17	1 409 806	4 646 522
Finance lease obligation	15	2 433 451	457 220
Payables from exchange transactions	20	636 669 807	445 557 764
Trade and other payable from non-exchange	21	1 424 947	13 088 340
VAT payable	22	67 586 964	61 824 297
Consumer deposits	23	22 651 297	21 630 101
Employee benefit obligation	8	1 204 000	1 168 000
Unspent conditional grants and receipts	16	19 407 803	26 535 073
Provisions for landfill site	18	1 771 095	2 423 069
Long service award liability	19	2 187 000	2 306 000
		<b>756 746 170</b>	<b>579 636 386</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	17	6 240 098	7 785 026
Finance lease obligation	15	3 095 396	260 133
Employee benefit obligation	8	50 711 864	49 431 864
Provisions for landfill site	18	87 987 151	88 052 441
Long term service liability	19	22 292 000	21 648 000
		<b>170 326 509</b>	<b>167 177 464</b>
<b>Total Liabilities</b>		<b>927 072 679</b>	<b>746 813 850</b>
<b>Net Assets</b>		<b>2 789 874 453</b>	<b>2 973 324 776</b>
Accumulated surplus		2 789 874 453	2 973 324 776

\* See Note 49

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	25	951 053 502	824 104 702
Rental of facilities and equipment		3 688 894	3 493 492
Interest received on outstanding debtors		55 078 974	24 435 944
Income from agency fees		22 430 070	22 714 517
Administration and management fees received		6 447 309	8 571 309
Fees earned		5 488 594	6 480 563
Incidental income		1 307 224	915 670
Other income	26	34 186 894	3 919 139
Interest received	27	1 518 368	2 645 995
Dividends received	27	52 409	42 093
<b>Total revenue from exchange transactions</b>		<b>1 081 252 238</b>	<b>897 323 424</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	28	190 532 285	184 965 065
<b>Transfer revenue</b>			
Government grants & subsidies	30	326 634 431	379 617 394
Public contributions and donations	31	198	9 589
Fines		23 370 441	28 201 577
Insurance claims		733 781	734 319
<b>Total revenue from non-exchange transactions</b>		<b>541 271 136</b>	<b>593 527 944</b>
<b>Total revenue</b>	24	<b>1 622 523 374</b>	<b>1 490 851 368</b>
<b>Expenditure</b>			
Employee related costs	32	(408 318 716)	(384 973 653)
Remuneration of councillors	33	(19 725 917)	(18 652 842)
Depreciation and amortisation	34	(176 316 028)	(155 373 604)
Impairment of assets	35	(1 693 493)	(2 453 900)
Finance costs	36	(40 426 315)	(38 322 117)
Debt Impairment	37	(140 889 950)	(159 815 674)
Collection costs		(8 779 147)	(5 410 622)
Repairs and maintenance		(81 277 135)	(56 941 353)
Bulk purchases	38	(725 551 014)	(620 630 534)
Contracted services	39	(77 700 495)	(70 285 730)
Grants and subsidies paid	29	(25 376 450)	(53 220 341)
General expenses	40	(108 526 584)	(112 259 273)
<b>Total expenditure</b>		<b>(1 814 581 244)</b>	<b>(1 678 339 643)</b>
<b>Operating deficit</b>		<b>(192 057 870)</b>	<b>(187 488 275)</b>
Profit (Loss) on disposal of assets		6 004 308	(10 698 275)
Actuarial gain / (loss)		2 623 000	(1 126 000)
Fair value adjustments	41	(22 735)	61 208 909
		<b>8 604 573</b>	<b>49 384 634</b>
<b>Deficit for the year</b>		<b>(183 453 297)</b>	<b>(138 103 641)</b>

\* See Note 49



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	3 155 695 636	3 155 695 636
Adjustments		
Correction of errors	(44 267 219)	(44 267 219)
<b>Balance at 01 July 2014 as restated*</b>	<b>3 111 428 417</b>	<b>3 111 428 417</b>
Changes in net assets		
Deficit for the year	(138 103 641)	(138 103 641)
Total changes	(138 103 641)	(138 103 641)
Opening balance as previously reported	3 037 571 228	3 037 571 228
Adjustments		
Correction of errors	(64 243 478)	(64 243 478)
<b>Restated* Balance at 01 July 2015 as restated*</b>	<b>2 973 327 750</b>	<b>2 973 327 750</b>
Changes in net assets		
Deficit for the year	(183 453 297)	(183 453 297)
Total changes	(183 453 297)	(183 453 297)
<b>Balance at 30 June 2016</b>	<b>2 789 874 453</b>	<b>2 789 874 453</b>
Note(s)		

\* See Note 49

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges & Property rates		925 294 779	1 048 232 985
Grants		300 276 768	373 487 598
Interest income		1 518 368	2 645 122
Dividends received		52 409	42 093
Other receipts		98 910 806	46 330 669
Fines		3 729 577	4 778 264
		<u>1 329 782 707</u>	<u>1 475 516 731</u>
<b>Payments</b>			
Employee costs		(425 570 009)	(392 145 363)
Suppliers		(816 426 830)	(978 319 731)
Finance costs		(30 283 897)	(114 543)
		<u>(1 272 280 736)</u>	<u>(1 370 579 637)</u>
<b>Net cash flows from operating activities</b>	43	<b>57 501 971</b>	<b>104 937 094</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(79 262 781)	(129 866 006)
Proceeds from sale of property, plant and equipment	4	15 638 325	23 057 460
Proceeds from sale of investment property	3	11 849 882	-
Purchase of intangible assets	5	(1 720 257)	(94 142)
Movement in investments		(604 364)	10 158 310
		<u>(54 099 195)</u>	<u>(96 744 378)</u>
<b>Net cash flows from investing activities</b>		<b>(54 099 195)</b>	<b>(96 744 378)</b>
<b>Cash flows from financing activities</b>			
Movement in consumer deposits		1 021 196	3 599 519
Movement in loans		(4 781 644)	(5 918 979)
Finance lease payments		(3 042 057)	(3 715 699)
		<u>(6 802 505)</u>	<u>(6 035 159)</u>
<b>Net cash flows from financing activities</b>		<b>(6 802 505)</b>	<b>(6 035 159)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3 399 729)</b>	<b>2 157 557</b>
Cash and cash equivalents at the beginning of the year		18 389 956	16 232 399
<b>Cash and cash equivalents at the end of the year</b>	14	<b>14 990 227</b>	<b>18 389 956</b>

\* See Note 49

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						1
Service charges	1,025,268,883	164,619,117	1,189,888,000	951,053,502	(238,834,498)	
Rental of facilities and equipment	2,843,657	(258,000)	2,585,657	3,688,894	1,103,237	
Interest on outstanding debtors	38,250,984	-	38,250,984	55,078,974	16,827,990	
Income from agency services	31,659,853	-	31,659,853	22,430,070	(9,229,783)	
Administration and management fees	10,333,851	-	10,333,851	6,447,309	(3,886,542)	
Fees earned	7,227,844	-	7,227,844	5,488,594	(1,739,250)	
Incidental income	996,994	-	996,994	1,307,224	310,230	
Other income	1,985,911	(222,000)	1,763,911	34,186,894	32,422,983	
Interest received - investment	2,991,070	-	2,991,070	1,518,368	(1,472,702)	
Dividends received	48,470	-	48,470	52,409	3,939	
<b>Total revenue from exchange transactions</b>	<b>1,121,607,517</b>	<b>164,139,117</b>	<b>1,285,746,634</b>	<b>1,081,252,238</b>	<b>(204,494,396)</b>	
<b>Revenue from non-exchange transactions</b>						
Property rates	193,933,000	48,740,000	242,673,000	190,532,285	(52,140,715)	
Government grants & subsidies	314,200,000	38,200,000	352,400,000	326,634,431	(25,765,569)	
Public contributions & donations	401	-	401	198	(203)	
Fines	26,375,000	-	26,375,000	23,370,441	(3,004,559)	
Insurance Claims	893,972	-	893,972	733,781	(160,191)	
<b>Total revenue from non-exchange transactions</b>	<b>535,402,373</b>	<b>86,940,000</b>	<b>622,342,373</b>	<b>541,271,136</b>	<b>(81,071,237)</b>	
<b>Total revenue</b>	<b>1,657,009,890</b>	<b>251,079,117</b>	<b>1,908,089,007</b>	<b>1,622,523,374</b>	<b>(285,565,633)</b>	

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

				Approved budget	Adjustments	Final
Figures in Rand						
<b>Expenditure</b>						
Personnel	(407,497,652)	(16,069,000)	<b>(423,566,652)</b>	(408,318,716)	<b>15,247,936</b>	
Remuneration of councillors	(19,675,000)	-	<b>(19,675,000)</b>	(19,725,917)	<b>(50,917)</b>	
Depreciation and amortisation	(190,336,723)	37,351,000	<b>(152,985,723)</b>	(176,316,028)	<b>(23,330,305)</b>	
Impairment loss	-	-	-	(1,693,493)	<b>(1,693,493)</b>	
Finance costs	(2,885,109)	-	<b>(2,885,109)</b>	(40,426,315)	<b>(37,541,206)</b>	
Debt impairment	(129,321,957)	-	<b>(129,321,957)</b>	(140,889,950)	<b>(11,567,993)</b>	
Collection costs	(9,558,654)	-	<b>(9,558,654)</b>	(8,779,147)	<b>779,507</b>	
Repairs and maintenance	(94,767,795)	-	<b>(94,767,795)</b>	(81,277,135)	<b>13,490,660</b>	
Bulk purchases	(553,171,690)	(174,001,000)	<b>(727,172,690)</b>	(725,551,014)	<b>1,621,676</b>	
Contracted Services	(51,769,000)	(33,723,000)	<b>(85,492,000)</b>	(77,700,495)	<b>7,791,505</b>	
Grants and subsidies	(49,542,723)	-	<b>(49,542,723)</b>	(25,376,450)	<b>24,166,273</b>	
General expenses	(96,653,346)	(35,097,000)	<b>(131,750,346)</b>	(108,526,584)	<b>23,223,762</b>	
<b>Total expenditure</b>	<b>(1,605,179,649)</b>	<b>(221,539,000)</b>	<b>(1,826,718,649)</b>	<b>(1,814,581,244)</b>	<b>12,137,405</b>	
<b>Operating deficit</b>	<b>51,830,241</b>	<b>29,540,117</b>	<b>81,370,358</b>	<b>(192,057,870)</b>	<b>(273,428,228)</b>	
Loss on disposal of assets	55,000,000	5,000,000	<b>60,000,000</b>	6,004,308	<b>(53,995,692)</b>	
Actuarial losses	-	-	-	2,623,000	<b>2,623,000</b>	
Fair value adjustments	-	-	-	(22,735)	<b>(22,735)</b>	
	<b>55,000,000</b>	<b>5,000,000</b>	<b>60,000,000</b>	<b>8,604,573</b>	<b>(51,395,427)</b>	
<b>Deficit for the year</b>	<b>106,830,241</b>	<b>34,540,117</b>	<b>141,370,358</b>	<b>(183,453,297)</b>	<b>(324,823,655)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>106,830,241</b>	<b>34,540,117</b>	<b>141,370,358</b>	<b>(183,453,297)</b>	<b>(324,823,655)</b>	

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	14,809,000	-	14,809,000	9,897,552	(4,911,448)	
Receivables from exchange	74,211,361	-	74,211,361	12,811,507	(61,399,854)	
Receivables from non-exchange transactions	-	-	-	35,057,017	35,057,017	
Consumer debtors	157,217,000	(47,165,000)	110,052,000	174,409,868	64,357,868	
Long term receivables	8,579,000	-	8,579,000	5,648,686	(2,930,314)	
Cash and cash equivalents	129,684,172	112,382,000	242,066,172	14,990,227	(227,075,945)	
	<b>384,500,533</b>	<b>65,217,000</b>	<b>449,717,533</b>	<b>252,814,857</b>	<b>(196,902,676)</b>	
<b>Non-Current Assets</b>						
Investment property	572,568,838	-	572,568,838	1,260,861,000	688,292,162	
Property, plant and equipment	2,340,717,000	43,237,000	2,383,954,000	2,124,707,533	(259,246,467)	
Intangible assets	1,087,123	-	1,087,123	2,218,742	1,131,619	
Heritage assets	-	-	-	5,428,407	5,428,407	
Other financial assets	18,419,834	-	18,419,834	10,419,663	(8,000,171)	
Long term receivables	18,778,359	-	18,778,359	60,496,930	41,718,571	
	<b>2,951,571,154</b>	<b>43,237,000</b>	<b>2,994,808,154</b>	<b>3,464,132,275</b>	<b>469,324,121</b>	
<b>Total Assets</b>	<b>3,336,071,687</b>	<b>108,454,000</b>	<b>3,444,525,687</b>	<b>3,716,947,132</b>	<b>272,421,445</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	4,421,474	-	4,421,474	1,409,806	(3,011,668)	
Finance lease obligation	-	-	-	2,433,451	2,433,451	
Payables from exchange transactions	233,650,581	-	233,650,581	636,669,796	403,019,215	
Payables from non-exchange	-	-	-	1,424,947	1,424,947	
VAT payable	57,060,513	(4,755,042)	52,305,471	67,586,964	15,281,493	

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Consumer deposits	21,191,575	-	21,191,575	22,651,297	1,459,722	
Employee benefit obligation	-	-	-	1,204,000	1,204,000	
Unspent conditional grants and receipts	-	-	-	19,407,803	19,407,803	
Provisions for landfill site	26,370,368	-	26,370,368	1,771,095	(24,599,273)	
Long service award liability	-	-	-	2,187,000	2,187,000	
	<b>342,694,511</b>	<b>(4,755,042)</b>	<b>337,939,469</b>	<b>756,746,159</b>	<b>418,806,690</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	3,354,867	(279,573)	3,075,294	6,240,098	3,164,804	
Finance lease obligation	-	-	-	3,095,396	3,095,396	
Employee benefit obligation	52,201,864	(4,350,155)	47,851,709	-	(47,851,709)	
Provisions for landfill site	27,359,175	(2,279,931)	25,079,244	87,987,151	62,907,907	
Long term service liability	84,932,226	(7,077,685)	77,854,541	22,292,000	(55,562,541)	
	<b>167,848,132</b>	<b>(13,987,344)</b>	<b>153,860,788</b>	<b>119,614,645</b>	<b>(34,246,143)</b>	
<b>Total Liabilities</b>	<b>510,542,643</b>	<b>(18,742,386)</b>	<b>491,800,257</b>	<b>876,360,804</b>	<b>384,560,547</b>	
<b>Net Assets</b>	<b>2,825,529,044</b>	<b>127,196,386</b>	<b>2,952,725,430</b>	<b>2,840,586,328</b>	<b>(112,139,102)</b>	
<b>Net Assets</b>						
Accumulated surplus	2,825,529,044	127,196,386	2,952,725,430	2,840,586,328	(112,139,102)	

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period. The details of any changes in accounting policies are explained in the relevant policy.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.2 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Trade and other receivables**

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on risk basis taking into account the number cut-offs, handed over status, indigent and payment ratio of each consumer debtor. The amount of loss is measured as the difference between the consumer debtor carrying amount and the estimated future cash flows.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance for inventory to write stock down to the lower of cost or net realisable value. Management have made estimates of service potential expected to be realized from distribution or use.

##### **Fair value estimation**

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### **Impairment testing**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory), GRAP 31 (Intangible Assets), GRAP 26 (Impairment of cash generating assets) and GRAP 21 (Impairment of Non Cash Generating Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets and the net realisable value for inventories involves significant judgement by management.

##### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

#### Effective interest rate

The municipality used the government bond rate to discount future cash flows.

#### Allowance for debt impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Investment property

Investment property (land or a building - or part of a building - or both) is property held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is the fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value of investment property reflecting market conditions at the valuation roll period of the municipality and annually updated with amendments of supplementary valuation roll.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site in which it is located

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

### 1.4 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Property, plant and equipment depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	30 years
Landfill site	Straight line	24 years
Infrastructure	Straight line	10-30 years
Community	Straight line	15-30 years
Other property, plant and equipment	Straight line	3-15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the recognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated goodwill is not recognised as an intangible asset.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the precognition of an intangible assets is determined as the difference between the net disposal proceeds, if any, and carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets that qualifies for recognition as an asset shall be measured at cost .

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the precognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument or group of financial instruments, the municipality shall use the contractual cash flows over the full contractual term of the financial instrument or group of financial instruments.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Financial assets

Consumer receivables  
Cash and cash equivalent  
Long term receivables  
Other receivables from exchange transactions  
Other receivables from non-exchange transactions  
Other financial assets (Listed shares)

#### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at fair value

The Municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Financial liabilities

Payables from exchange transactions  
Other financial liability (loans)  
Financial lease liability

#### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

#### Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On precognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expired or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.



# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.9 Leases (continued)**

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

### **1.10 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 1.10 Inventories (continued)

#### Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

#### Other arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### 1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell;
- its value in use; and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return

Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.12 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Employee benefits (continued)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 1.13 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality

A constructive obligation to restructure arises only when an municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46. Currently the municipality has only landfill site provision.

# Govan Mbeki Municipality

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## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Govan Mbeki Municipality

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### 1.15 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Rendering of services by the municipality includes, but not limited to income from agency fees, rentals, incidental income and other income.

#### Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions (continued)

#### Rates including collection charges and penalties

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### Grants

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Unconditional grants and receipts are recognised upon receipt.

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.10, 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Extended periods is periods that exceeds X months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.21 Irregular expenditure

Irregular expenditure is expenditure incurred that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Budget information

The Municipality approved budget is prepared on accrual basis and presented by programme's linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-07-01 to 2016-06-30.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.25 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The ASB has issued the following additional standards of GRAP, which are not yet effective for the 31 December 2015, 31 March 2016 and 30 June 2016 year-ends:

- GRAP 20 Related party disclosure
- GRAP 32 Service concession arrangements: Grantor
- GRAP 108 Statutory receivables
- GRAP 109 Accounting by principals and agents

Effective dates for the above standards have not yet been gazette by the Minister of Finance.

The municipality is currently in the process of evaluating the detail requirements of the above listed standards to assess whether they would have any impact on the financial statements when enacted.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 3. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 260 861 000	-	1 260 861 000	1 279 786 000	-	1 279 786 000

#### Reconciliation of investment property - 2016

	Opening balance	Disposals	Total
Investment property	1 279 786 000	(18 925 000)	1 260 861 000

#### Reconciliation of investment property - 2015

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	1 238 312 331	(15 973 100)	57 446 769	1 279 786 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was 30 June 2015. Revaluations were performed by an independent valuer from Lutendo Property Group, the valuer is qualified and registered as a Professional Valuer with the institute of the South African Council for Property Valuers Profession. Lutendo Property Group valuation services is not connected to the municipality and have experience in location and category of the investment property being valued.

Valuations are done on a more scientific approach, and values are calculated on accepted valuation principles using researched variable inputs.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2016		2015	
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
				Accumulated depreciation and impairment
				Carrying value
Land	474,006,136	-	471,006,136	474,318,907
Buildings	934,255,015	(627,520,428)	306,734,587	884,762,818
Infrastructure	4,463,235,308	(3,289,648,008)	1,173,587,300	4,428,295,718
Assets under construction	85,970,770	-	85,970,770	86,983,796
Landfill site	186,473,129	(138,561,241)	47,911,888	187,350,678
Leased movable assets	6,818,105	(2,470,739)	4,347,366	835,475
Other property, plant and equipment	139,960,828	(106,147,422)	33,813,406	134,333,747
Library Cost	4,785,387	(3,449,307)	1,336,080	4,587,730
<b>Total</b>	<b>6,292,504,678</b>	<b>(4,167,797,145)</b>	<b>2,124,707,533</b>	<b>6,201,468,869</b>
				<b>(3,993,092,886)</b>
				<b>2,208,375,983</b>

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Donated Assets	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	474,318,907	-	-	(3,312,771)	-	-	-	471,006,136
Buildings	295,331,815	-	6,573,738	-	42,918,458	(38,089,424)	-	306,734,587
Infrastructure	1,253,984,845	6,607,576	3,735,731	(388,492)	27,790,323	(118,142,683)	-	1,173,587,300
Assets under construction	86,983,796	69,695,756	-	-	(70,708,782)	-	-	85,970,770
Landfill site	53,246,409	2,796,043	-	(3,673,593)	-	(4,456,971)	-	47,911,888
Leased movable assets	545,675	5,982,630	-	-	-	(2,180,939)	-	4,347,366
Other property, plant and equipment	42,290,029	2,959,454	2,667,626	-	-	(12,410,211)	(1,693,492)	33,813,406
Library Books	1,674,507	-	226,936	(10,460)	-	(554,903)	-	1,336,080
<b>Total</b>	<b>2,208,375,983</b>	<b>88,041,459</b>	<b>13,204,031</b>	<b>(7,385,316)</b>	<b>(1)</b>	<b>(175,835,131)</b>	<b>(1,693,492)</b>	<b>2,124,707,533</b>

### Reconciliation of property, plant and equipment - 2015

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)	Opening balance	Additions	Donated assets	Disposals	Leased Assets Capitalised	Transfers	Newly identified	Depreciation	Impairment loss	Total
Land	478,461,048	-	-	(4,142,141)	-	-	-	-	-	474,318,907
Buildings	286,072,109	-	12,855,130	(5,000,180)	-	25,197,804	-	(22,992,748)	(800,300)	295,331,815
Infrastructure	1,227,475,555	-	10,252,413	(4,914,355)	-	137,822,358	-	(115,041,414)	(1,609,712)	1,253,984,845
Assets Under construction	123,854,662	126,509,813	-	(360,519)	-	(163,020,160)	-	-	-	86,983,796
Landfill site	61,303,484	1,147,165	-	(4,207,600)	-	-	-	(4,996,640)	-	53,246,409
Leased assets	276,493	569,262	-	(11,854)	-	-	-	(288,226)	-	545,675
Other property, plant and equipment	44,479,514	1,883,271	8,015,075	(2,490,488)	414,720	-	1,393,652	(11,361,827)	(43,888)	42,290,029
Library Books	2,078,399	-	26,082	-	-	-	87,490	(517,464)	-	1,674,507
	<b>2,224,001,264</b>	<b>130,109,511</b>	<b>31,148,700</b>	<b>(21,127,137)</b>	<b>414,720</b>	<b>2</b>	<b>1,481,142</b>	<b>(155,198,319)</b>	<b>(2,453,900)</b>	<b>2,208,375,983</b>

### Pledged as security

Carrying value of assets pledged as security:

Office equipment 4,347,366 645,463

Included other property plant and equipment is office equipment subject to finance lease. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 15 of the finance lease obligations.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 5. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 905 807	(687 065)	2 218 742	1 196 821	(212 878)	983 943

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	983 943	1 720 257	(4 562)	(480 896)	2 218 742

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	1 087 123	94 142	(20 965)	(176 357)	983 943

#### Pledged as security

All intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 6. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	5 428 407	-	5 428 407	5 428 711	-	5 428 711

#### Reconciliation of heritage assets 2016

	Opening balance	Disposals	Total
Art Collections, antiquities and exhibits	5 428 711	(304)	5 428 407

#### Reconciliation of heritage assets 2015

	Opening balance	Total
Art Collections, antiquities and exhibits	5 428 711	5 428 711

#### Heritage assets valuation

Where the entity holds heritage assets, but has not accounted for such assets using GRAP 17 or using an accounting policy based on GRAP 103, consider whether disclosure, including a description of the nature and extent, of these assets is useful to the users of the annual financial statements.

#### Pledged as security

No heritage assets have been pledged as security for any liabilities of the municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 7. Other financial assets

#### Designated at fair value

Old mutual shares	1 241 435	1 249 507
Sanlam shares	148 002	162 665
<b>Total</b>	<b>1 389 437</b>	<b>1 412 172</b>

#### At amortised cost

ABSA Fixed deposit	9 030 226	8 403 127
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The ABSA balance is held as security for the DBSA loan reference number ML 13427/102 which had a balance of R 2 293 783 as at year end (2015: R 2 746 512)

<b>Total other financial assets</b>	<b>10 419 663</b>	<b>9 815 299</b>
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#### Non-current assets

At fair value	1 389 437	1 412 172
At amortised cost	9 030 226	8 403 127
<b>Total</b>	<b>10 419 663</b>	<b>9 815 299</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 8. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member who is on the current conditions of service is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit funding method.

At the valuation date individuals entitled to a post - retirement medical aid subsidy were:

In - service (employee) members.

In - service (employee) non - members.

Continuation (retiree and widow) members.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(50 599 864)	(48 634 864)
Present value of the defined benefit obligation-partly or wholly funded	(1 316 000)	(1 965 000)
	<b>(51 915 864)</b>	<b>(50 599 864)</b>
Non-current liabilities	(50 711 864)	(49 431 864)
Current liabilities	(1 204 000)	(1 168 000)
	<b>(51 915 864)</b>	<b>(50 599 864)</b>

#### Valuation of assets

At the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets had been set aside to meet this liability.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(50 599 864)	(48 634 864)
Benefits paid	3 252 000	3 154 000
Net expense recognised in the statement of financial performance	(4 568 000)	(5 119 000)
	<b>(51 915 864)</b>	<b>(50 599 864)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(1 168 000)	(1 161 000)
Interest cost	(4 500 000)	(4 263 000)
Actuarial (gains) losses	1 100 000	305 000
	<b>(4 568 000)</b>	<b>(5 119 000)</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,01 %	- %
Consumer Price Inflation	7,20 %	- %
Health care cost inflation	8,20 %	- %
Net discount rate	0,75 %	- %

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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### 8. Employee benefit obligations (continued)

The determination of the investment returns are as per market yields at balance sheet date on government bonds. Two most important financial variables used in our valuation are the discount and medical aid inflation rates, the zero coupon yield curve from Johannesburg Stock Exchange were used to determine the discount rates and CPI assumptions.

The discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 1 June 2016 is 9.0% per annum.

The yield on inflation linked bonds of a similar term was about 1.69% per annum, implying an underlying expectation of inflation of 7.20% per annum.

The healthcare cost inflation rate of 8.20% was assumed. This is 1% in excess of the expected inflation over the expected term of the liability at 7.2%. It is the relative levels of the discount rate and healthcare inflation to one another that are important rather than the nominal values. It has thus assumed a net discount factor of 0.75% per annum.

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements. It was assumed that post employment health care subsidy would be at 100% of active employees or their surviving dependents.

### Actuarial gains

#### Changes in economic variables

The changes in net discount rate from last years valuation to the current year reduced the liability by R 175 000

The health benefit inflation was lower than assumed in the prior valuation and the effect was a decrease in the liability by R 24 000.

The net effect of miscellaneous items resulted in an increase to the liability by R 206 000.00.

Changes in membership – There were a few changes in the membership over the past financial years changes resulted in a decrease in the liability of around R 1 107 000.

### Sensitivity analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables i.e

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the Medical Aid inflation

### Withdrawal rate

The 20% decrease and 20% increase in the withdrawals assumption will result in will result in 0.7% increase and 1.1% decrease in the accrued liability respectively.

### Health care cost inflation

The valuation basis assume that the health care cost inflation rate will be 0.75% less than the corresponding discount rates in the long term. Therefore 1% increase in health care inflation assumption will result in 12% increase in the accrued liability and 1% decrease in health care inflation assumption will result in 12% decrease in the accrued liability.

### Withdrawal rate

	-20% Withdrawal rate	Valuation assumptions	+20% Withdrawal rate
Total Accrued Liability	47 221 000	51 915 000	52 267 000
Current Service Cost	1 140 000	1 204 000	1 244 000
Interest Cost	4 454 000	4 507 000	4 539 000
	<b>52 815 000</b>	<b>57 626 000</b>	<b>58 050 000</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 8. Employee benefit obligations (continued)

#### Health care cost inflation

	-1% Health care cost inflation	Valuation assumptions	+1% Health care cost inflation
Total Accrued Liability	48 675 000	51 915 000	58 140 000
Current Service Cost	998 000	1 204 000	1 465 000
Interest Cost	4 035 000	4 507 000	5 067 000
	<b>53 708 000</b>	<b>57 626 000</b>	<b>64 672 000</b>

### 9. Long term receivables

Credit quality of long term receivables

The credit quality of long term receivables from exchange transactions that are either past due or impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed. Long term receivables include debtors with signed debt arrangement and/or handed over to lawyers

The municipality enforces its approved credit policy to ensure the recovery of long term receivables. The balance of long term receivables are as follows.

#### Summary of long term debtors

Gross long term receivables	296 194 791	110 197 224
Less: Allowance for impairment	(230 049 175)	(82 294 953)
	<b>66 145 616</b>	<b>27 902 271</b>
Current portion of long term debtors	5 648 686	3 544 871
Non-current portion of long term debtors	60 463 835	24 357 399

### 10. Inventories

Consumable stores	9 279 260	10 100 751
Water	618 292	599 949
	<b>9 897 552</b>	<b>10 700 700</b>

### 11. Receivables from exchange transactions

Other receivables	12 811 507	11 145 939
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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<b>12. Receivables from non-exchange transactions</b>		
Fines	7 682 743	5 277 957
Government grants and subsidies	11 070 083	6 565 919
Property rates	16 304 191	6 281 798
	<b>35 057 017</b>	<b>18 125 674</b>
<b>Receivables from non-exchange transactions pledged as security</b>		
None of the receivables from non-exchange transactions were pledged as security.		
<b>Property rates</b>		
<b>Summary of property rates</b>		
Gross balance	66 470 145	67 006 076
Less: Allowance for impaired	(50 165 954)	(60 724 355)
	<b>16 304 191</b>	<b>6 281 721</b>
<b>Summary of rates per ageing</b>		
Current (0-30 days)	2 361 418	2 220 121
31 -60 days	1 715 665	1 520 393
61-90 days	1 541 332	1 275 147
91-120 days	2 086 787	1 169 857
>120 days	58 586 495	60 820 558
Allowance for impairment	(50 165 954)	(60 724 355)
	<b>16 125 743</b>	<b>6 281 721</b>
<b>Consumers</b>		
Current (0-30 days)	600 174	1 899 688
31-60 days	629 329	498 616
61-90 days	598 514	367 233
91-120 days	898 817	351 308
>121 days	24 189 290	24 429 882
Allowance for impairment	(20 715 722)	(26 057 988)
	<b>6 200 402</b>	<b>1 488 739</b>
<b>Industrial/ Commercial</b>		
Current (0-30 days)	1 693 647	242 464
31-60 days	1 014 494	951 164
61-90 days	880 161	838 755
91-120 days	1 116 596	750 801
>120 days	30 663 877	28 017 874
Allowance for impairment	(25 940 628)	(26 815 923)
	<b>9 428 147</b>	<b>3 985 135</b>
<b>National and Provincial government</b>		
Current (0-31days)	28 470	51 748
31-60 days	29 122	37 641
61-90 days	27 725	36 379
91-120 days	36 810	38 457
>121 days	2 020 233	5 850 334
Allowance for impairment	(1 831 839)	(5 359 001)
	<b>310 521</b>	<b>655 558</b>
<b>Other</b>		
Current (0-30 days)	40 638	26 221

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>12. Receivables from non-exchange transactions (continued)</b>		
31-60 days	42 720	32 972
61-90 days	34 932	32 780
91-120 days	34 565	29 291
>121 days	1 713 094	2 522 467
Allowance for impairment	(1 677 766)	(2 491 443)
	<b>188 183</b>	<b>152 288</b>

### Reconciliation of provision for impairment of receivables from property rates

Opening balance	(60 724 355)	(47 658 287)
Provision for impairment	10 558 401	(13 066 068)
	<b>(50 165 954)</b>	<b>(60 724 355)</b>

### Fines

As of 30 June 2016, other receivables from fines of R 33 912 888 (2015: R 74 143 043) were impaired and provided for. The amount of the provision was R 26 230 145 as of 30 June 2016 (2015: R 63 922 387). Included in the gross receivables are debtors amounting to R 54 928 320 written off as irrecoverable as per council resolution A76/08/2015.

### Summary of fines

Opening balance	69 200 344	50 672 101
Additions	19 640 864	18 528 243
Gross fines written off	(54 928 320)	-
Provision for impairment	(26 230 145)	(63 922 387)
	<b>7 682 743</b>	<b>5 277 957</b>

### Reconciliation of provision for impairment of receivables from fines

Opening balance	(63 922 387)	(45 179 181)
Provision for impairment	37 692 242	(23 685 906)
Amounts written off as uncollectible	-	4 942 700
	<b>(26 230 145)</b>	<b>(63 922 387)</b>

### Credit quality of receivables from non-exchange transactions

The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>13. Consumer debtors</b>		
<b>Gross balances</b>		
Electricity	136 017 354	129 071 631
Water	345 259 199	331 623 723
Sewerage	153 048 287	145 344 253
Refuse	138 280 070	135 702 603
Other	72 281 338	94 348 656
	<b>844 886 248</b>	<b>836 090 866</b>
<b>Less: Allowance for impairment</b>		
Electricity	(77 938 775)	(76 650 607)
Water	(268 209 692)	(281 439 998)
Sewerage	(136 986 041)	(133 199 381)
Refuse	(122 529 462)	(124 014 502)
Other	(64 812 410)	(91 302 227)
	<b>(670 476 380)</b>	<b>(706 606 715)</b>
<b>Net balance</b>		
Electricity	58 078 579	52 421 024
Water	77 049 507	50 183 725
Sewerage	16 062 246	12 144 872
Refuse	15 750 608	11 688 101
Other	7 468 928	3 046 429
	<b>174 409 868</b>	<b>129 484 151</b>
<b>Electricity</b>		
Current (0 -30 days)	32 806 844	30 812 112
31 - 60 days	4 353 205	3 755 462
61 - 90 days	4 491 405	2 950 955
91 - 120 days	4 066 331	2 294 705
>121 days	90 301 303	89 262 132
Allowance for impairment	(77 940 509)	(76 654 342)
	<b>58 078 579</b>	<b>52 421 024</b>
<b>Water</b>		
Current (0 -30 days)	39 591 542	29 397 804
31 - 60 days	9 993 729	9 315 974
61 - 90 days	9 842 867	6 375 638
91 - 120 days	9 485 185	6 665 476
>121 days	276 345 876	279 868 764
Allowance for impairment	(268 209 692)	(281 439 931)
	<b>77 049 507</b>	<b>50 183 725</b>
<b>Sewerage</b>		
Current (0 -30 days)	5 060 916	4 417 732
31 - 60 days	4 012 842	3 719 054
61 - 90 days	3 609 539	2 454 413
91 - 120 days	3 769 250	2 293 214
>121 days	136 595 740	132 459 840
Allowance for impairment	(136 986 041)	(133 199 381)
	<b>16 062 246</b>	<b>12 144 872</b>
<b>Refuse</b>		
Current (0 -30 days)	3 601 247	2 472 204
31 - 60 days	3 610 422	2 395 276

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>13. Consumer debtors (continued)</b>		
61 - 90 days	3 350 294	1 678 195
91 - 120 days	3 206 876	1 570 418
>121 days	124 511 231	127 586 510
Allowance for impairment	(122 529 462)	(124 014 502)
	<b>15 750 608</b>	<b>11 688 101</b>
<b>Other (specify)</b>		
Current (0 -30 days)	562 252	407 140
31 - 60 days	613 318	149 324
61 - 90 days	496 740	394 261
91 - 120 days	412 645	261 027
>121 days	70 196 384	93 136 904
Allowance for impairment	(64 812 411)	(91 302 227)
	<b>7 468 928</b>	<b>3 046 429</b>
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	57 932 321	36 334 887
31 - 60 days	20 022 109	16 629 682
61 - 90 days	19 144 148	11 896 512
91 - 120 days	18 734 034	11 272 795
>121 days	630 048 370	636 594 149
	745 880 982	712 728 025
Less: Allowance for impairment	(611 947 667)	(629 097 558)
	<b>133 933 315</b>	<b>83 630 467</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	20 568 433	27 642 064
31 - 60 days	1 721 555	1 984 285
61 - 90 days	1 985 742	1 372 102
91 - 120 days	1 572 632	1 184 068
>121 days	36 888 442	36 595 535
	62 736 804	68 778 054
Less: Allowance for impairment	(29 914 846)	(30 706 749)
	<b>32 821 958</b>	<b>38 071 305</b>
<b>National and provincial government</b>		
Current (0 -30 days)	2 624 313	3 048 859
31 - 60 days	434 197	541 430
61 - 90 days	424 733	463 537
91 - 120 days	326 030	432 830
>121 days	6 644 813	11 197 308
	10 454 086	15 683 964
Less: Allowance for impairment	(6 046 098)	(10 163 309)
	<b>4 407 988</b>	<b>5 520 655</b>
<b>Other</b>		
Current (0-30 days)	497 734	481 183
31-60 days	405 656	179 692
61-90 days	236 222	121 310
91-120 days	307 658	195 547
>120 days	22 837 213	37 923 506
	(22 569 505)	(36 642 810)

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>13. Consumer debtors (continued)</b>	<b>1 714 978</b>	<b>2 258 428</b>
<b>Total</b>		
Current (0 -30 days)	81 622 802	67 506 993
31 - 60 days	22 583 517	19 335 089
61 - 90 days	21 790 845	13 853 462
91 - 120 days	20 940 287	13 084 841
121 - 365 days	697 950 532	722 314 192
	844 887 983	836 094 577
Less: Allowance for impairment	(670 478 115)	(706 610 426)
	<b>174 409 868</b>	<b>129 484 151</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(706 606 715)	(593 861 751)
Contributions to allowance	-	(112 744 964)
Reversal of allowance	116 126 292	-
	<b>(590 480 423)</b>	<b>(706 606 715)</b>

### Consumer debtors pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality.

### Credit quality of consumer debtors

The credit quality of consumer receivables from exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Consumer receivables are billed monthly. No interest is charged on consumer receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding capital amount exclusive of interest.

Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality enforces its approved credit control policy to ensure the recovery of consumer receivables. Deposits are required to be paid for all water accounts opened.

None of the financial assets that are fully performing have been renegotiated in the last year.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21 350	22 060
Bank balances	11 968 318	12 286 290
Short-term deposits	3 000 559	6 081 606
	<b>14 990 227</b>	<b>18 389 956</b>

### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank Primary Account	-	1 727 433	16 341 664	-	10 373 787	13 437 055
Standard Bank Account	11 046 718	9 666 366	1 806 871	11 968 318	1 286 290	-
ABSA 32 days	-	348 454	337 006	-	348 454	337 006
ABSA MIG Funds Account	-	58 260	55 431	-	58 260	55 431
ABSA Cheque Account	-	304 986	289 009	-	304 986	289 009
ABSA Call Bank	-	910 349	2 669 539	-	901 349	2 669 539
Standard Bank Account -MIG	46 522	3 997 550	-	46 522	3 997 550	-
Standard Bank Account -Emba	320 110	460 490	-	320 110	460 490	-
Standard Bank - Account-Traffic	1 402 790	8 016	-	1 402 790	8 016	-
Standard Bank - Call Account	1 231 125	-	-	1 231 125	-	-
<b>Total</b>	<b>14 047 265</b>	<b>17 481 904</b>	<b>21 499 520</b>	<b>14 968 865</b>	<b>17 739 182</b>	<b>16 788 040</b>

### 15. Finance lease obligation

#### Minimum lease payments due

- within one year	3 237 064	577 031
- in second to fifth year inclusive	3 444 893	278 264
	<b>6 681 957</b>	<b>855 295</b>
less: future finance charges	(1 153 110)	(137 942)
	<b>5 528 847</b>	<b>717 353</b>

#### Present value of minimum lease payments due

- within one year	2 433 451	457 220
- in second to fifth year inclusive	3 095 396	260 132
	<b>5 528 847</b>	<b>717 352</b>

Non-current liabilities	3 095 396	260 132
Current liabilities	2 433 451	457 220
	<b>5 528 847</b>	<b>717 353</b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 10% (2015: 9%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	2 951 830	10 964 066
Sports & Development Grant	453 685	453 685
Energy Efficiency & Demand Side Management	10 000	-
Municipal system improvement Grant	35 263	847
Housing grant	405 992	-
SASOL	15 116 475	15 116 475
Financial Management Grant	434 558	-
	<b>19 407 803</b>	<b>26 535 073</b>

The grant liability indicated the nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited. Fulfilled conditions and other contingencies attaching to government assistance that has been recognised as revenue and disclosed in the grant income note of the annual financial statements.

### 17. Other financial liabilities

#### At amortised cost

Development Bank of South Africa	7 649 904	12 431 548
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#### Non-current liabilities

At amortised cost	6 240 098	7 785 026
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#### Current liabilities

At amortised cost	1 409 806	4 646 522
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 18. Provisions for landfill site

#### Reconciliation of provisions for landfill site - 2016

	Opening Balance	Utilised during the year	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Landfill site	90 475 510	(13 094 518)	2 423 069	5 024 054	4 930 131	89 758 246

#### Reconciliation of provisions for landfill site - 2015

	Opening Balance	Utilised during the year	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Landfill site	93 548 708	578 874	2 160 095	(2 744 388)	(3 067 779)	90 475 510
Non-current liabilities					87 987 151	88 052 441
Current liabilities					1 771 095	2 423 069
					<b>89 758 246</b>	<b>90 475 510</b>

#### Landfill site rehabilitation provision

The municipality will incur licensing and rehabilitation cost of R89 758 247 (2015: R90 475 511) to restore landfill sites at the end of their use. As at 30 June 2016, this liability will be incurred over 0 to 36 years. Provision has been made for the net present value of the expenditures expected to be required to settle the obligation using the average cost of borrowings.

In the current year the waste management team accurately accounted for waste dispositions in the landfill sites. The increased accuracy in volumes of waste dumped at these sites resulted in more accurate site life calculations. The effect of the changes resulted in decrease in provisions by R 13 093 518.

The net discount rate decreased from 2.68% to 1.97% and thus increased the liability as at 30 June 2016 by R 5 024 054.

The priced quotations used to quantify the rehabilitation costs and closure costs increased in the financial year. The net effect of the increase was R 4 930 131.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 19. Long service award liability

The municipality operates a defined benefit plan for all its employees. The long service award liability is not a funded arrangement, i.e. no separate assets have been set aside to meet its liability.

Under the plan, a long service award is payable after 10 years of continuous service and every 5 years thereafter, until 45 years of service (inclusive) to employees. Furthermore, a retirement gift is payable on retirement to employees with 10 years or more service. The provision is an estimate of a long service based on historical staff turnover. No other long service benefits are provided to employees.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

At year end, 1,348 (2015: 1,405) employees were eligible for long service awards.

#### Valuation of liabilities

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

#### Valuation of assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability

The amounts recognised in the statement of financial position are as follows:

#### Carrying amount

Present value	(23 954 000)	(20 919 000)
Increase in long service award liability	(525 000)	(3 035 000)
	<b>(24 479 000)</b>	<b>(23 954 000)</b>
Non current liabilities	(22 292 000)	(21 648 000)
Current liabilities	(2 187 000)	(2 306 000)
	<b>(24 479 000)</b>	<b>(23 954 000)</b>

#### Changes in the present value of the long service award liability are as follows:

Opening balance	(23 954 000)	(20 918 999)
Benefits paid	2 444 000	2 041 000
Net expense recognised in the statement of financial performance	(2 969 000)	(5 076 001)
	<b>(24 479 000)</b>	<b>(23 954 000)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(2 306 000)	(1 981 000)
Interest cost	(2 186 000)	(1 664 001)
Actuarial gains/ (losses)	1 523 000	(1 431 000)
	<b>(2 969 000)</b>	<b>(5 076 001)</b>

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 19. Long service award liability (continued)

The discount rate determined by using the Bond Exchange (JSE) Zero Coupon Yield Curve as at 1 June 2016 is 9.39% per annum. The assumed discount rate used at the previous valuation, 30 June 2015, was 7.96% per annum.

At 1 June 2016 the yield on inflation-linked bonds of a similar term was about 1.74% per annum. This implies an underlying expectation of inflation of 7.52% per annum  $([1 + 9.39\%] / [1 + 1.74\%] - 1)$ .

It was assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 8.52% per annum. However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 0.80% per annum  $([1 + 9.39\%] / [1 + 8.52\%] - 1)$ .

#### Actuarial gain can be attributed to the following factors

Changes in economic variables increased the liability.  
Increase in employees entitled to other long service award benefits.

#### Financial variable

Discount Rate	9,39%		
CPI (Consumer price inflation)	7,52%		
Normal salary increase rate	8,52%		
Net effective discount rate	1%		
Expected retirement age - female		63	63
Expected retirement age- male		63	63
		<b>152</b>	<b>126</b>

#### Sensitivity analysis

The valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership. In order to illustrate the sensitivity of our results to changes in certain key variables, the liabilities were recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation.

#### Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa. We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%.

#### Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees. We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption.

The effect of the above is as follows:

#### Withdrawals

	-20% Withdrawal rate	Valuation Assumptions	+20% Withdrawal rate
Total Accrued Liability	22 678 000	24 479 000	25 384 000
Current Service Cost	2 121 000	2 187 000	2 267 000
Interest Cost	2 158 000	2 208 000	2 265 000
	<b>26 957 000</b>	<b>28 874 000</b>	<b>29 916 000</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 19. Long service award liability (continued)

#### Normal salary inflation

	-1% Normal salary inflation	Valuation Assumptions	+1% Normal salary inflation
Total Accrued Liability	22 919 000	24 479 000	26 205 000
Current Service Cost	2 026 000	2 187 000	2 368 000
Interest Cost	2 062 000	2 208 000	2 370 000
	<b>27 007 000</b>	<b>28 874 000</b>	<b>30 943 000</b>

### 20. Payables from exchange transactions

Trade payables	586 761 907	388 671 589
Accrued leave pay	21 100 887	19 490 575
Accrued bonus	9 168 647	11 778 335
Retentions	15 091 901	23 402 517
Salary control	1 917 394	323 098
Other payables	2 629 071	1 891 650
	<b>636 669 807</b>	<b>445 557 764</b>

### 21. Payables from non-exchange transactions

Unallocated receipts	1 424 947	13 088 340
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### 22. VAT payable

Amount payable	67 586 964	61 824 297
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### 23. Consumer deposits

Electricity & Water	22 651 297	21 630 101
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### 24. Revenue

Service charges	951 053 502	824 104 702
Rental of facilities and equipment	3 688 894	3 493 492
Interest received on outstanding debtors	55 078 974	24 435 944
Income from agency services	22 430 070	22 714 517
Administration and management fees received	6 447 309	8 571 309
Fees earned	5 488 594	6 480 563
Incidental income	1 307 224	915 670
Other income	34 186 894	3 919 139
Interest received - investment	1 518 368	2 645 995
Dividends received	52 409	42 093
Property rates	190 532 285	184 965 065
Government grants & subsidies	326 634 431	379 617 394
Public contributions and donations	198	9 589
Fines, Penalties and Forfeits	23 370 441	28 201 577
Insurance claims	733 781	734 319
	<b>1 622 523 374</b>	<b>1 490 851 368</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 24. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	951 053 502	824 104 702
Rental of facilities and equipment	3 688 894	3 493 492
Interest received (trading)	55 078 974	24 435 944
Agency services	22 430 070	22 714 517
Administration and management fees received	6 447 309	8 571 309
Fees earned	5 488 594	6 480 563
Incidental income	1 307 224	915 670
Other income	34 186 894	3 919 139
Interest received - investment	1 518 368	2 645 995
Dividends received	52 409	42 093
	<b>1 081 252 238</b>	<b>897 323 424</b>

The amount included in revenue arising from non-exchange transactions is as follows:

Fines	23 370 441	28 201 577
Government grants & subsidies	326 634 431	379 617 394
Insurance claims	733 781	734 319
Property rates	190 532 285	184 965 065
Public contributions and donations	198	9 589
	<b>541 271 136</b>	<b>593 527 944</b>

### 25. Service charges

Sale of electricity	446 255 398	391 707 944
Sale of water	318 194 326	254 097 735
Sewerage and sanitation charges	87 477 913	83 324 754
Refuse removal	99 125 865	94 974 269
	<b>951 053 502</b>	<b>824 104 702</b>

### 26. Other income

Advertising income	207 848	126 812
Commission	5 541	17 476
Landfill site	2 262 784	2 220 479
Surplus monies	10 379 619	28 212
Skills development refund	576 340	933 543
Settlement discount	264 224	152 330
Refuse bin sales	141	12 798
Photocopying	97 160	65 159
Consent use	49 750	120 026
Sundry revenue	611 268	242 304
Retention write-off	10 569 192	-
VAT write-off	9 163 027	-
	<b>34 186 894</b>	<b>3 919 139</b>

Sundry revenue relates to other earnings that are not the primary income generating activities of the municipality such as library lost book fines and informal trading fees.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 27. Investment revenue

#### Dividend revenue

	2016	2015
Other financial asset	52 409	42 093

#### Interest revenue

Short term investments	1 345 595	2 285 760
Bank	172 773	360 235
<b>Total</b>	<b>1 518 368</b>	<b>2 645 995</b>

### 28. Property rates

#### Rates received

Residential	120 278 884	112 385 757
Commercial	86 292 625	85 558 525
State	5 401 479	7 467 749
Small holdings and farms	1 929 343	1 391 439
Churches	1 261 700	1 841 268
Less: Income forgone	(24 631 746)	(23 679 673)
<b>Total</b>	<b>190 532 285</b>	<b>184 965 065</b>

#### Valuations

Residential	12 549 053 031	12 006 553 436
Commercial	3 984 846 085	4 057 410 565
State	368 870 907	393 890 905
Municipal	778 343 385	2 307 050 747
Small holdings and farms	1 753 680 509	1 635 352 509
Churches	214 483 145	206 718 795
NGO's	11 585 000	11 794 000
<b>Total</b>	<b>19 660 862 062</b>	<b>20 618 770 957</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 21 July 2012. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

### 29. Grants and subsidies paid

#### Other subsidies

Electricity indigent support	400 167	4 105 401
Sewerage indigent support	5 715 092	10 412 814
Rates indigent support	376 410	826 778
Refuse indigent support	10 465 486	20 009 100
Water indigent support	8 385 500	17 854 628
Pauper's burial	33 795	11 620
<b>Total</b>	<b>25 376 450</b>	<b>53 220 341</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 30. Government grants and subsidies

#### Operating grants

Equitable share	194 986 048	193 583 008
Extended public works programme	2 145 000	2 071 000
Financial Management Grant	1 165 442	1 600 000
Pre-capacity Grant	94 008	420 006
Municipal system improvement Grant	895 584	1 823 153
Municipal Infrastructure Skills Development	26 000 000	26 000 000
Sports & Development Grant	-	21 900
Economic Development and Tourism	5 037 589	-
Department of Minerals and Energy	990 000	-
Sasol	2 047 350	-
Gert Sibande District Municipality	1 377 050	-
	<b>234 738 071</b>	<b>225 519 067</b>

#### Capital grants

Municipal Infrastructure Grant	63 900 236	72 816 934
Gert Sibande District Municipality	2 755 383	1 931 792
Department of Environmental Affairs	-	6 133 242
Sasol	226 936	22 318 038
SANEDI	8 500 000	1 500 000
Sonland Ontwikkeling	-	1 692 000
Rand water	631 934	193 641
Evander Gold Mine	889 904	-
Integrated National Electrification programme Grant	1 275 756	-
Human Settlement Grant	3 307 191	47 512 680
Department of Minerals and Energy	2 200 000	-
PAN African Resources	5 270 424	-
Other Capital grant	2 938 596	-
	<b>91 896 360</b>	<b>154 098 327</b>
	<b>326 634 431</b>	<b>379 617 394</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	131 648 383	185 340 687
Unconditional grants received	194 986 048	193 583 382
	<b>326 634 431</b>	<b>378 924 069</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 200 (2015:190), which is funded from the grant. The subsidy is determined annually by council. All indigent residential households received 10kl water and 50kwh electricity free every month.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	10 964 066	-
Current-year receipts	55 888 000	83 781 000
Conditions met - transferred to revenue	(63 900 236)	(72 816 934)
	<b>2 951 830</b>	<b>10 964 066</b>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 30. Government grants and subsidies (continued)

#### Gert Sibande District Municipality

Balance unspent at beginning of year	(13 684)	(2 879 731)
Current-year receipts	1 376 524	4 104 514
Conditions met - transferred to revenue	(1 376 524)	(1 238 467)
	<b>(13 684)</b>	<b>(13 684)</b>

This grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.

#### Sports and Development Grant

Balance unspent at beginning of year	453 685	475 585
Conditions met - transferred to revenue	-	(21 900)
	<b>453 685</b>	<b>453 685</b>

This grant was received for promotion and development of sport. Projects identified for application of the grant will run in the subsequent financial year. No funds have been withheld.

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	847	1 690 000
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(895 584)	(1 823 153)
Other	-	(800 000)
	<b>35 263</b>	<b>847</b>

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and is also used to improve technology networks and ward committee operations.

#### Pre-capacity grant

Balance unspent at beginning of year	-	420 006
Current-year receipts	500 000	(420 006)
Conditions met - transferred to revenue	(94 008)	-
	<b>405 992</b>	<b>-</b>

The grant was allocated to ensure that the social housing programme of provincial government was carried out. The municipality acts as an agent for implementation of the plan.

#### Department of Human Settlement

Balance unspent at beginning of year	(6 552 234)	(5 729 983)
Current-year receipts	-	46 690 054
Conditions met - transferred to revenue	(3 307 191)	(47 512 305)
	<b>(9 859 425)</b>	<b>(6 552 234)</b>

The Human settlement grant is allocated to municipality for the creation of sustainable human settlements that enables an improved quality of household life and the facilitation and provision of access to basic infrastructure, top structures and basic social and economic amenities that contribute to the creation of sustainable human settlements.

#### SASOL

Balance unspent at beginning of year	15 116 475	-
Current-year receipts	-	37 434 513

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 30. Government grants and subsidies (continued)

Conditions met - transferred to revenue	-	(22 318 038)
	<b>15 116 475</b>	<b>15 116 475</b>

Conditions still to be met of the remaining liabilities (see note 16).

### Financial Management Grant

Current-year receipts	1 600 000	1 600 000
Conditions met - transferred to revenue	(1 165 442)	(1 600 000)
	<b>434 558</b>	<b>-</b>

The Finance Management Grant is allocated to assist the municipality to secure sound and sustainable management of the fiscal and financial affairs and to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

### Extended Public Works Programme

Current-year receipts	2 145 000	2 071 000
Conditions met - transferred to revenue	(2 145 000)	(2 071 000)
	<b>-</b>	<b>-</b>

EPWP grant incentives municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus area and in compliance with the EPWP guidelines.

### Municipal Skills Development Grant

Current-year receipts	26 000 000	26 000 000
Conditions met - transferred to revenue	(26 000 000)	(26 000 000)
	<b>-</b>	<b>-</b>

The grant is allocated to support the municipality to build long term and sustainable capacity by training a pool of young professionals in technical and project/operations management skills.

### Department of Environmental Affairs

Current-year receipts	-	6 133 242
Conditions met - transferred to revenue	-	(6 133 242)
	<b>-</b>	<b>-</b>

### Sonland Ontwikkeling

Current-year receipts	-	1 692 000
Conditions met - transferred to revenue	-	(1 692 000)
	<b>-</b>	<b>-</b>

### SANEDI

Current-year receipts	8 500 000	1 500 000
Conditions met - transferred to revenue	(8 500 000)	(1 500 000)
	<b>-</b>	<b>-</b>

Funds received from SANEDI to fund smart grid programme.

### Rand water



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>30. Government grants and subsidies (continued)</b>		
Current-year receipts	-	193 641
Conditions met - transferred to revenue	-	(193 641)
	-	-
<b>Energy Efficiency &amp; Demand Side Management Grant</b>		
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(990 000)	-
	<b>10 000</b>	-
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Integrated National Electrification Programme Grant</b>		
Current-year receipts	2 200 000	-
Conditions met - transferred to revenue	(2 200 000)	-
	-	-
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Economic Development and Tourism</b>		
Current-year receipts	4 800 000	-
Conditions met - transferred to revenue	(5 037 589)	-
	<b>(237 589)</b>	-
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>31. Public contributions and donations</b>		
Public contributions and donations	198	9 589

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>32. Employee related costs</b>		
Basic	219 360 164	198 503 786
Bonus	15 071 540	19 369 769
Medical aid - company contributions	25 444 849	22 236 575
UIF	2 381 391	2 224 992
Leave pay provision charge	2 738 831	3 286 527
Pension fund contribution	44 577 704	41 050 438
Defined contribution plans	3 507 987	3 140 814
Travel, motor car, accommodation, subsistence and other allowances	15 377 314	16 156 222
Overtime payments	15 274 391	19 847 933
Long-service awards	3 474 000	3 142 000
Cellphone allowance	2 069 682	2 066 274
Allowances standby	11 654 730	9 991 086
Industrial council levy	124 632	111 770
Non pensionable allowance	44 288 777	43 069 829
Housing subsidy	2 972 724	775 638
	<b>408 318 716</b>	<b>384 973 653</b>

### Remuneration of Municipal Manager: Mahlangu MF

Annual Remuneration	1 137 796	1 096 247
Car Allowance	108 000	108 000
Cellphone allowance	21 780	-
Contributions to UIF, Medical and Pension Funds	304 185	313 141
	<b>1 571 761</b>	<b>1 517 388</b>

The Municipal Manager was appointed on 16 January 2012

### Remuneration of Chief Financial Officer: Mokgatsi MJ

Annual Remuneration	1 051 709	985 567
Car Allowance	96 000	96 000
Cellphone allowance	21 600	-
Contributions to UIF, Medical, Pension Funds and Provident Fund.	234 584	242 137
	<b>1 403 893</b>	<b>1 323 704</b>

The Chief Financial Officer was appointed on 01 June 2010

### Remuneration of Director Corporate: Mahlangu ZL

Annual Remuneration	878 212	818 124
Car Allowance	96 000	96 000
Cellphone Allowance	21 600	-
Contributions to UIF, Medical and Pension Funds	186 533	198 696
	<b>1 182 345</b>	<b>1 112 820</b>

The director was appointed on 01 April 2013

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 32. Employee related costs (continued)

#### Remuneration of Director Community Services: Zulu ET

Annual Remuneration	729 773	667 542
Car Allowance	336 000	336 000
Cellphone Allowance	21 600	-
Contributions to UIF, Medical and Pension Funds	152 728	162 853
	<b>1 240 101</b>	<b>1 166 395</b>

The director was appointed on 15 April 2013

#### Remuneration of Director Planning and Development: Wetbooi NS

Annual Remuneration	851 340	767 770
Car Allowance	96 000	96 000
Cellphone Allowance	21 600	-
Contributions to UIF, Medical and Pension Funds	157 266	164 114
	<b>1 126 206</b>	<b>1 027 884</b>

The director was appointed on 01 April 2013

#### Remuneration of Director Technical Services: Mtshali BS

Annual Remuneration	-	134 266
Car Allowance	-	14 144
Contributions to UIF, Medical and Pension Funds	-	26 012
	<b>-</b>	<b>174 422</b>

The director resigned on 22 September 2014

#### Regional Manager: Sihlali HK

Annual Remuneration	751 926	704 488
Car Allowance	120 000	120 000
Cellphone Allowance	21 600	-
Contributions to UIF, Medical and Pension Funds	163 128	173 564
	<b>1 056 654</b>	<b>998 052</b>

Regional manager was appointed on 01 February 2014

#### Regional Manager: Mashiane MR

Annual Remuneration	758 452	707 357
Car Allowance	120 000	120 000
Cellphone Allowance	21 600	-
Contributions to UIF, Medical and Pension Funds	167 599	181 066
	<b>1 067 651</b>	<b>1 008 423</b>

Regional manager was appointed on 01 February 2014

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 32. Employee related costs (continued)

#### Regional Manager: Michele ME

Annual Remuneration	738 240	717 388
Car Allowance	144 000	144 000
Cellphone Allowance	21 600	-
Contributions to UIF, Medical and Pension Funds	163 353	174 703
	<b>1 067 193</b>	<b>1 036 091</b>

Regional manager was appointed on 01 February 2014

#### Remuneration of Director Technical Services Masia MH

Annual Remuneration	683 539	225 289
Car Allowance	96 000	32 000
Cellphone Allowance	21 600	-
Contributions to UIF, Medical and Pension Funds	138 947	59 741
	<b>940 086</b>	<b>317 030</b>

The director was appointed on 1 March 2015

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 33. Remuneration of councillors

Councillors 19 725 917 18 652 842

#### Councillors

The remuneration of political office bearers and councillors is within the upper limits as determined by Remuneration of Public Officers Bearers Act no. 20 of 1998 and as per Government Gazette no.37281.

Councillor	Appointment date	Salary	Pension	Medical	Other	Total
Badenhorst H J	01/03/2001	162 577,53	24 387,00	-	71 139,48	258 104,01
Bosch P R	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Botha C	17/08/2015	181 659,62	25 786,75	-	18 247,59	225 693,96
Buthelezi T M	08/12/2000	221 028,32	33 154,20	-	71 139,48	325 322,00
De Vries G R	02/01/2014	206 292,21	30 943,80	-	20 868,00	258 104,01
Denny T M	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Fourie M E	07/04/2016	52 517,15	2 578,65	-	4 846,39	59 942,19
Gwiji C V	21/05/2011	415 921,17	62 388,60	17 280,00	154 925,28	650 515,05
Khayiyana M Z C	21/05/2011	404 014,83	60 602,40	-	146 546,76	611 163,99
Labuschagne P J	08/12/2000	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Lekoloane M I	21/05/2011	13 694,08	1 886,30	-	5 928,29	21 508,67
Mabena S S	05/01/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Mahlangu B D	15/03/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Mahlangu B S	21/05/2011	404 014,83	60 602,40	-	146 546,76	611 163,99
Mahlangu S S	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Majozi N E	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Makhanye S A	21/05/2011	388 988,43	58 348,80	17 280,00	146 546,76	611 163,99
Makola M B	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Masango J M	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Masango S A	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Masina H S	21/05/2011	147 608,13	22 141,20	17 215,20	71 139,48	258 104,01
Masina L I	08/03/2006	523 660,25	78 549,00	17 280,00	188 439,72	807 928,97
Masombuka S M	08/03/2006	192 517,96	28 878,05	15 840,00	20 868,00	258 104,01
Mathabe N M	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Mathebula S B	20/08/2013	206 292,21	30 943,80	-	20 868,00	258 104,01
Mayisa J S	16/04/2012	180 337,29	27 050,85	17 280,00	33 435,87	258 104,01
Mkhwanazi Z G	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Mkwebane Z A	26/06/2015	206 292,21	30 943,80	-	20 868,00	258 104,01
Mngomezulu M P	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Motaung A D	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Mtseni T P	08/01/2015	162 577,53	24 387,00	-	71 139,48	258 104,01
Mtshali P D	21/05/2011	404 014,83	60 602,40	-	146 546,76	611 163,99
Mtsweni L J	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Mtsweni M J	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Mtsweni T A	08/03/2006	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Mvundla W L	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Mzinyane T E	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Ndaba B B	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Ndinisa B J	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Ndlovu S J	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Ngxonono Y T	21/05/2011	388 988,43	58 348,80	17 280,00	146 546,76	611 163,99
Nhlapho M D	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Nkabinde J B	01/03/2013	166 220,42	24 933,40	-	66 950,19	258 104,01
Nkabinde M A	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Nkambule F B	08/12/2000	404 014,83	60 602,40	-	146 546,76	611 163,99
Nkokoane M E	02/07/2015	206 292,21	30 943,80	-	20 868,00	258 104,01
Nkosi M J	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Nkosi N E	08/12/2000	388 988,43	58 348,80	17 280,00	146 546,76	611 163,99
Nkosi N K	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand				2016	2015	
<b>33. Remuneration of councillors (continued)</b>						
Ntuli G N	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Nxumalo N J	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Nzama P G	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Pretorius R J	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Sibande E S	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Tlou D I	02/08/2012	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Tsotetsi T J	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Van Baalen J A	08/03/2006	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Van Huyssteen N	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Van Rooyen E J	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Victor N S	08/03/2006	162 577,53	24 387,00	-	71 139,48	258 104,01
Vilakazi E A	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
Viljoen M	25/07/2014	111 695,14	16 754,45	11 773,80	53 354,61	193 578,00
Zulu NN	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Zulu T S	21/05/2011	162 577,53	24 387,00	-	71 139,48	258 104,01
Zwane P J	21/05/2011	147 551,73	22 132,80	17 280,00	71 139,48	258 104,01
-	-	<b>12 580 499,77</b>	<b>1 880 160,65</b>	<b>407 709,00</b>	<b>4 857 571,86</b>	<b>19 725 941,28</b>
<b>Appointments</b>						
<b>Date</b>						
Nkokoane ME	2015/07/02					
Botha C	2015/08/17					
Fourie	2016/06/01					
<b>Terminations</b>						
<b>Date</b>		<b>Reason</b>				
Lekoloane ML	2015/07/31	Resigned				
Viljoen M	2016/03/31	Resigned				
<b>34. Depreciation and amortisation</b>						
Property, plant and equipment					175 835 132	155 197 248
Intangible assets					480 896	176 356
				<b>176 316 028</b>	<b>155 373 604</b>	
<b>35. Impairment of assets</b>						
<b>Impairments</b>						
Property, plant and equipment					1 693 493	2 453 900
<b>36. Finance costs</b>						
Employee obligation interest					6 686 000	5 927 001
Trade and other payables					29 148 529	28 476 162
Finance leases					1 033 349	114 523
Bank					3	20
Current borrowings					1 135 365	1 644 316
Land fill site					2 423 069	2 160 095
				<b>40 426 315</b>	<b>38 322 117</b>	
<b>37. Debt impairment</b>						
Debt impairment					140 889 950	159 815 674

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

### Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>38. Bulk purchases</b>		
Electricity	501 281 325	433 578 852
Water	224 269 689	187 051 682
	<b>725 551 014</b>	<b>620 630 534</b>
<b>39. Contracted services</b>		
Legal services	4 806 085	4 671 469
Meter reading	9 967 529	10 344 088
Security services	21 191 676	19 407 234
Professional fees	10 644 267	11 729 630
Other contractors	31 090 938	24 133 309
	<b>77 700 495</b>	<b>70 285 730</b>

Other contractors mainly include contracted sewerage purification services, prepaid vending management as well as assessment services.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>40. General expenses</b>		
Advertising	52 892	-
Animal Costs	230 000	399 999
Auditors remuneration	4 662 721	4 461 405
Bank charges	3 807 301	3 593 777
Cleaning	-	905 860
Community development and training	-	1 491 210
Conferences and seminars	18 000	56 099
Connection fees	480 578	323 773
Consumables	925 775	1 159 993
Entertainment	58 151	351 248
Fleet	2 258 332	3 386 877
Grants expenditure	32 405 029	27 328 649
Investigation fees	302 877	-
IT expenses	656 900	90 656
Insurance	4 328 494	4 411 385
Inventory losses	1 312 236	3 052
Land eviction costs	-	2 091 954
Marketing	-	157 397
Medical expenses	33 787	160 948
Motor vehicle expenses	3 329 026	2 700 433
Other expenses	639 182	168 200
Pest control	7 099	5 123
Placement fees	52 916	88 429
Postage and courier	2 472 180	2 208 088
Presenting costs	32 520	387 702
Printing and stationery	2 966 973	3 676 511
Professional fees	4 355 307	7 414 779
Promotions and sponsorships	1 500	563 925
Protective clothing	1 725 255	2 009 642
Rehabilitation costs	57 607	297 707
Rental: machinery & equipment	14 175 576	9 787 627
Software expenses	-	20 708
Subscriptions and membership fees	4 481 622	3 957 411
TV licenses	20 920	18 787
Telephone and fax	2 127 315	2 632 612
Training	3 494 855	4 969 478
Transport and freight	12 768 083	16 189 785
Travel	879 204	1 655 610
Workshop	3 406 371	3 132 434
	<b>108 526 584</b>	<b>112 259 273</b>

### 41. Fair value adjustments

Investment property	-	59 186 334
Property, plant and equipment	-	1 923 500
Other financial assets	(22 735)	99 075
	<b>(22 735)</b>	<b>61 208 909</b>

### 42. Auditors' remuneration

Fees	4 662 721	4 461 405
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>43. Cash generated from operations</b>		
Deficit	(183 453 297)	(138 103 641)
<b>Adjustments for:</b>		
Depreciation and amortisation	176 316 028	155 373 604
Loss on sale of assets	(6 004 308)	10 698 275
Actuarial gains/(losses)	(2 623 000)	1 126 000
Fair value adjustments	22 735	(61 208 909)
Impairment on assets	1 693 493	2 453 900
Debt impairment	140 889 950	159 815 674
Grants and subsidies-non cash	25 376 450	53 220 341
Other non-cash items	(94 716 079)	(78 438 815)
	<b>57 501 972</b>	<b>104 936 429</b>

## 44. Financial instruments disclosure

### Categories of financial instruments

#### 2016

##### Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1 389 437	9 030 226	-	10 419 663
Receivables from exchange transactions	-	2 914 495	-	2 914 495
Receivables from non-exchange transaction	-	17 969 630	7 248 989	25 218 619
Long term debtors	-	31 127 539	-	31 127 539
Consumer debtors	-	161 829 757	-	161 829 757
Cash and cash equivalents	-	34 479 578	-	34 479 578
	<b>1 389 437</b>	<b>257 351 225</b>	<b>7 248 989</b>	<b>265 989 651</b>

##### Financial liabilities

	At amortised cost	Total
Financial lease obligation	6 142 168	6 142 168
Other financial liabilities	7 506 748	7 506 748
Trade and other payables from exchange transactions	469 682 764	469 682 764
Trade and other payables from non-exchange transactions	54 319 879	54 319 879
	<b>537 651 559</b>	<b>537 651 559</b>

#### 2015

##### Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1 412 172	8 403 127	-	9 815 299
Trade and other receivables from exchange transactions	-	7 993 307	-	7 993 307
Other receivables from non-exchange transactions	-	11 095 755	6 565 919	17 661 674
Consumer debtors	-	138 615 772	-	138 615 772
Cash and cash equivalents	-	18 396 455	-	18 396 455
Other asset	-	29 015 450	-	29 015 450
	<b>1 412 172</b>	<b>213 519 866</b>	<b>6 565 919</b>	<b>221 497 957</b>

##### Financial liabilities

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### Financial instruments disclosure (continued)

	At amortised cost	Total
Loans from shareholders	717 353	717 353
Other financial liabilities	12 431 548	12 431 548
Trade and other payables from exchange transactions	448 063 716	448 063 716
Taxes and transfers payable (non-exchange)	14 442 927	14 442 927
	<b>475 655 544</b>	<b>475 655 544</b>

### Financial instruments in Statement of financial performance

#### 2016

	At fair value	At amortised cost	Total
Interest income from outstanding receivables	-	41 104 996	41 104 996
Interest expense	-	(23 656 668)	(23 656 668)
Interest income from investments	-	1 092 361	1 092 361
Fair value adjustments on financial assets	74 568	-	74 568
Debt impairment	-	(86 262 291)	(86 262 291)
	<b>74 568</b>	<b>(67 721 602)</b>	<b>(67 647 034)</b>

#### 2015

	At fair value	At amortised cost	Total
Dividends received	42 093	-	42 093
Interest income from outstanding receivables	-	24 479 491	24 479 491
Interest expense	-	(38 322 117)	(38 322 117)
Interest income on investments	-	2 645 122	2 645 122
Fair value adjustments on financial assets	99 075	-	99 075
Debt impairment	-	(159 815 675)	(159 815 675)
	<b>141 168</b>	<b>(171 013 179)</b>	<b>(170 872 011)</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>45. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	124 295 321	100 271 822
<b>Total capital commitments</b>		
Already contracted for but not provided for	124 295 321	100 271 822
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Operating contracts commitments	91 227 001	102 859 566
<b>Total operational commitments</b>		
Already contracted for but not provided for	91 227 001	102 859 566
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	124 295 321	100 271 822
Authorised operational expenditure	91 227 001	102 859 566
	<b>215 522 322</b>	<b>203 131 388</b>

Capital commitment relates to property, plant and equipment and will mainly be financed by the Municipal Infrastructure Grant

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 46. Contingencies

#### Contingent liabilities

The following legal proceedings are currently in progress and are represented by various attorneys:

##### Cronje De Waal & Skhosana

Govan Mbeki Municipality vs Pit Bok Construction cc	9 021 856	9 021 856
Govan Mbeki Municipality vs Bosch	25 781 855	16 996 145
	<b>34 803 711</b>	<b>26 018 001</b>

##### Else Louw & Rasool Attorneys

Govan Mbeki vs Tank Projects Solutions	-	4 000 000
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##### Ramathe MJ Attorneys

Govan Mbeki Municipality vs Junior Joubert	102 000	-
Govan Mbeki Municipality vs Khumalo Sam and Moses	130 000	-
Govan Mbeki Municipality vs CP Roers obo Snoers	550 000	-
	<b>782 000</b>	<b>-</b>

##### TMN Kgomo Attorneys

Govan Mbeki Municipality vs Fikile Esther Hlanze	124 900	-
Govan Mbeki Municipality vs JH Odendaal	255 000	-
	<b>379 900</b>	<b>-</b>

##### Other

Govan Mbeki Municipality vs MBV Mavusoobo Minor children	800 000	800 000
Govan Mbeki Municipality vs Jannie Welthagen	8 900	-
Govan Mbeki Municipality vs Vos Viljoen & Burger	5 640	5 640
Govan Mbeki Municipality vs Simstone Pty Ltd and Moanalea	-	90 489
Govan Mbeki Municipality vs Marnelle Rauch	21 000	21 000
Govan Mbeki Municipality vs Hermanus Steyn	10 901	-
Govan Mbeki Municipality vs Dawson and Dobson PTY (LTD)	238 369	-
Govan Mbeki Municipality vs Elvis Lerato Mosele	2 250 000	-
Govan Mbeki Municipality vs Mashego Phetla	19 875	-
Govan Mbeki Municipality vs Telkom	90 333	-
Govan Mbeki Municipality vs F Menge Signage	10 672	-
Govan Mbeki Municipality vs Telkom//Thisila Enterprises	25 000	-
Govan Mbeki Municipality vs Kenneth Frank Cameron	3 100 000	-
Govan Mbeki Municipality & M I Makhanye vs K R Lester	250 641	-
Govan Mbeki Municipality vs Telkom SA	11 131	-
Govan Mbeki Municipality vs J E Mabona//Public Protector	1 581 053	-
Govan Mbeki Municipality vs Joseph Visagie	135 413	-
Govan Mbeki Municipality vs Coleman Catharina Talita	750 000	-
GMM vs Patric Bhekifa Ndlovu & Rudolph Badenhorst	98 000	-
	<b>9 406 928</b>	<b>917 129</b>

#### Total contingent liabilities

**45 372 542 33 375 214**

#### Contingent assets

In addition to the court cases disclosed below, there are certain court cases which are more complex and costs cannot be determined. The following are the determinable contingent assets:

##### Cronje De Waal & Skhosana Attorneys

Mindsgate vs Govan Mbeki Municipality	2 000 000	2 000 000
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 46. Contingencies (continued)

#### TMN Kgomo and Associates

Management Skills vs Govan Mbeki Municipality

427 000 427 000

#### Total contingent assets

2 427 000 2 427 000

### 47. Related parties

#### Relationships

Busisiwe Mathebula

Family member to director of Vuma Konkeke  
Transport and projects (spouse)

Employee with indirect interest with suppliers of the municipality:

Duduzile Maseko

Ellen Sarah khumalo

Sipho Fakude

Nontembiso Sqoko

Wilfred Mahlangu

Zakhele Masilela

Zakeu Mahlangu

Lucky Jane Trading Projects

Minoah suppliers solution (pty) ltd

Singemalangenu Logistics CC

Sondie Trading Enterprise (Pty) Ltd

Zamathamane logistics

Clarabana General trading CC

TMN Kgomo& Associates

Members of key management

ET Zulu

MF Mahlangu

JM Mokgatsi

ZL Mahlangu

NS Wetbooi

HK Sihlali

ME Michele

MR Mashiane

MH Masia

### Related party balances

#### Amounts included in (Trade receivable) Trade Payable regarding related parties

Vuma Konke transport and Projects CC

- 164 160

TMN Kgomo & Associates

- 19 841

Lucky Jane Trading and Projects

1 381 206 -

Thisilo Trading Enterprise

273 144 -

Westvaal Holding (Pty) Ltd

37 441 -

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>47. Related parties (continued)</b>		
<b>Related party transactions</b>		
<b>Hire of plant equipment</b>		
Vuma Konke Transport and project CC	12 295 229	4 126 138
Lucky Jane Trading and Projects	136 800	146 199
Singamalangeni Logistics CC	413 136	325 356
BV Magujwa Trading and Projects	-	29 700
Sondie Trading Enterprise	404 900	279 415
Zamathamane Constructio CC	-	216 800
Zamathamane Logistics	-	201 424
Thisile Trading Enterprise	372 324	-
<b>Consumables</b>		
Minoah suppliers solutions (pty) ltd	3 524	74 358
Clarabarna General Trading	712 070	95 306
<b>Legal services</b>		
TMN Kgomo & Associates	165 897	325 033
<b>Repairs and Maintenance</b>		
Wetvaal Holdings (Pty) Ltd	160 889	-

### 48. Change in estimate

#### Property, plant and equipment

GRAP 17: Property, Plant and Equipment requires that the review of the remaining useful life of an item of property, plant and equipment to be conducted at least at each financial year end. Such review has been completed and the following results were achieved.

- The remaining useful lives of other property, plant and equipment were reviewed based on the condition assessment carried out during the physical verification. As a result of the review, the remaining useful lives of other property, plant and equipment were adjusted in accordance with the "Local Government Capital Asset Management Guideline" as issued by National Treasury.
- The impact of the adjustment is that depreciation charges on Property, Plant and Equipment for the 2016 financial period has decreased by R147 462

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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### 49. Prior period errors

#### 1. Investment Property

The municipality's investment property asset register was compared to deeds search and thoroughly verified, and this process identified the following errors:

1.1 Privately owned properties which do not belong to the municipality were identified and these assets were still included in the Investment Property register. The properties were disposed of in the prior periods and the disposal was not adequately accounted for and others were granted for RDP housing projects and not removed from the asset register. The effect of this error was an overstatement of Investment Property and overstatement of Accumulated Surplus. These properties were subsequently removed from the Investment Property.

1.2 Land which is utilised by the municipality for service delivery purposes was incorrectly recognised as Investment Property instead of Property, Plant and Equipment. The effect of this error was an overstatement of Investment Property and understatement of Property, Plant and Equipment. These properties were subsequently removed from the Investment Property and transferred to Property, Plant and Equipment.

#### 2. Consumer debtors

Consumer accounts were incorrectly billed in previous year due to various reasons i.e. incorrect tariff charged, incorrect readings, supplementary valuations etc., the correction of the error resulted in decrease in consumer debtors by R 11 391 513, increase in receivables from non exchange by R 464 001, decrease in long term receivables by R 127 301, increase in property rates revenue by R 464 001, decrease in service charges by R 11 464 700 and decrease in other income by R 54 115.

#### 3. Payables exchange transactions

3.1 Expense relating to the prior year 2015 were paid in the current year 2016, no accruals were raised for the creditor as a result general expenditure increased by R 160 257, VAT liability decreased by R 22 400 and payables from exchange increased by R 182 658.

3.2 Receipt for consumer account payment incorrectly recorded in the books as traffic fines income. As a result the traffic fines income decreased by R 6500.

3.3 A payment amounting to R 394 000 was made to the municipality in the current financial year, the receipt relates to the property sold in the previous however a debtor was never raised for the sale, as a result the debtor increased by R 394 000, Vat liability decreased by R 48 386 and opening accumulated surplus increased by R 345 614

3.4 Professional fees incurred in the 2014 financial year was duplicated, and the duplication increase the creditors. The error identified was corrected resulting in decrease in Payables from exchange transactions by R 2 688 619, increase in VAT liability by R 330 181 and increase in opening accumulated surplus by R 2 358 437.

#### 4. Trade receivables from exchange transactions

4.1 Overpayment made to a service provider in 2015 financial year for meter reading services was raised as debtor however the debtor was incomplete. As a result other receivables increased by R 111 382, contracted services expenditure decreased by R 79 364 and VAT liability increased by R 32 018

4.2 Payment of rental by the lessee incorrectly recorded as a debtor in the 2015 financial year, as a result rental income and other receivables were overstated. The correction resulted in decrease of receivables by R 63 648, decrease of rental income by R59 552 and decrease in VAT liability by R 4 096

4.3 Rental income relating to previous periods was billed in the current financial year. The correction of the error was recognized as a result rental income decreased by R 597 729, opening accumulated surplus decreased by R 558 218, consumer debtors increased by R 1 317 780 and VAT liability increased by R161 833

#### 5. Property, plant and equipment

5.1 Completed projects amounting to R 55 826 136 were not unbundled in the prior period resulting in increase in

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Prior period errors (continued)

infrastructure assets and decrease in assets under construction.

5.2 Repairs and maintenance and professional fees expenditure incurred in 2014 and 2015, amounting to R 8 568 478 and R 2 034 804 respectively was incorrectly capitalized to assets under construction. The net effect on correction of the error decreased opening accumulated surplus by R 8 568 478, repairs and maintenance expenditure by R 2 034 804 and Property, plant and equipment by R 10 603 282.

5.3 Heritage assets were incorrectly classified under PPE in the previous year which resulted in an understatement of heritage assets; therefore the assets were moved to heritage in the current year.

5.4 Unverified assets were previously disposed however they were found in current year during verification and brought in as new found in the register.

5.5 Assets from Landfill sites were reclassified to movables in the current year. The PPE was overstated in the previous year due to duplicated and dummy asset number therefore the items were removed against accumulated surplus in the current year.

5.6 The register was overstated with assets that were transferred to a fictitious location in the register in the previous year, consequently the assets were removed from the register against accumulated surplus.

5.7 Infrastructure assets included in the previous year's register were verified during the current year, and could not be found as a result the assets were removed from the register.

5.8 During the physical verification, assets were identified as new found assets which were not included in the register; the omission resulted in an understatement of infrastructure in the previous year. The assets were consequently added in the register.

### 6. Cellphone Allowance

6.1 The cellphone allowance granted to senior management and councillors were in the prior periods classified as general expenditure instead of employee related cost, as a result of this error employee related cost was understated and general expenditure overstated.

The correction of the error(s) results in adjustments as follows:

### Statement of financial position

#### Assets

Property, Plant and Equipment	84 215 243
Investment Property	(145 380 000)
Heritage Assets	684 169
Long term Receivables	(127 301)
Cash and Cash Equivalents	(6 500)
Consumer Debtors	(10 117 280)
Trade Receivables from exchange transactions	3 152 632
Receivable from non exchange transactions	- 464 001
	<b>64 243 478</b>

#### Liabilities

Payables from exchange transactions	2 505 961
Payables from non exchange transactions	1 354 587
Value Added Tax	- (988 989)
	<b>2 871 559</b>

#### Reserves

Retained Earnings - Opening balance	<b>44 267 218</b>
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Prior period errors (continued)

#### Statement of Financial Performance

##### Revenue

Service charges	11 463 875
Property rates	(837 219)
Interest on outstanding debtors	43 547
Fees earned	- 825
Fines	6 500
Rental Income	(484 062)
Interest received on bank	(873)
Fair value adjustments	- 4 790 708
Grant Income	- (693 326)
Profit and loss on sale of assets	- (1 644 293)
	<b>12 645 681</b>

##### Expenditure

Employee cost	2 066 274
Remuneration to councillors	1 301 142
Depreciation	- 4 841 664
General Expenditure	- (3 226 725)
Repairs and Maintenance	- 1 955 440
Contracted services	- 392 784
	<b>7 330 579</b>

### 50. Comparative figures

There were reclassification of certain comparative amounts done during the period.

### 51. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

#### Market risk

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2016

## **Notes to the Annual Financial Statements**

Figures in Rand

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### **51. Risk management (continued)**

#### **Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

### **52. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **53. Events after the reporting date**

The following events occurred after reporting date however before the issue of the financial statements to the Office of the Auditor General:

Adjusting events

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 53. Events after the reporting date (continued)

The following items were written off by council subsequent year end in the council sitting held on the 29 August 2016 through council resolution A72/08/2016, subsequent adjustments were made in the annual financial statement which resulted with the following impact:

#### Property, plant and Equipment

A total number of 1607 assets with a carrying value of R8 711 034 was identified to be written-off on the fixed asset register and the annual financial statements. This write off were as a result of the following:

Assets which was either privately owned and included in the fixed assets register or assets with dummy numbers linked to valid assets numbers which resulted in a duplication of assets

#### Investment Property

A total number of 521 assets with a carrying value of R88 455 430 was identified to be written-off on the fixed asset register and the annual financial statements. During the review of the register, a comparison between a deeds search report and investment property register was performed and a total number of 241 properties were identified on the register which are privately owned according to the deeds search. This property was consequently removed from the register.

Properties with duplicated LPI codes were also identified which resulted in an overstatement of investment property in the previous year.

Also included in the write off is 118 properties that were sold and contracts/agreements were signed.

#### Heritage Assets

An assets with a carrying value of R304 was identified to be written-off on the fixed asset register and the annual financial statements.

#### Intangible Assets

A total number of 4 assets with a carrying value of R4 562 was identified to be written-off on the fixed asset register and the annual financial statements. During the update of the register for the 2015/2016 financial year, assets with duplicate asset numbers were identified and thus had to be written-off.

#### Library Books

A total number of 244 library books with a carrying value of R14 078 was identified to be written-off on the fixed asset register and the annual financial statements.

#### Creditors

A debit balance of 216 712 was written off in the current year. During the financial year 2012/2013 creditors to the value of R73 216 218 were accrued for, however, payments to the value of R72 999 905 were effected which left a difference of R216 712.

#### Value Added Tax

An amount of R9 374 149 relating to value added tax was written off as a prior period error.

#### Retentions

An unclaimed retention to the value of R10 569 192 was written off as per the retention policy of council.

The retention policy approved by council states that "it is the responsibility of the contractor to submit a claim for the retention once the defects liability period has lapsed. Unclaimed retentions which is over two (2) years after the defect liability period will be written off based on this policy and amount written off from the retention register and municipality's accounting records.

#### Receivables

An amount of R2 033 686 regarding the difference between the financial records and Enatis system was written off. This debtor emanated from communication of audit findings by the Auditor General in 2013 and it is still currently in the municipality's financial records. There is also no indication of recoverability.

#### Inventory

An amount of R1 406 824.18 was written off due to stock count variances identified during physical between actual stock on the floor and SEBATA financial management system.

#### Cash and cash equivalents

The bank suspense opening balance amounting to R8 276 592 was written off in the current year.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 53. Events after the reporting date (continued)

#### Irregular expenditure

Irregular expenditure amounting to R 111 067 610 written off by council on the 29 August 2016 through resolution A72/08/2016.

#### Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure of R30 553 483 incurred as a result of late payments of service providers due to cashflow constraints was written off in the current year

#### Deviations

Deviations that took place during the year were reported as part of the quarterly report. The total value of be disclosed is R3 247 246, and this has been disclosed in note 57. The deviations were noted and approved by council.

### 54. Unauthorised expenditure

Unauthorised expenditure	1 726 375	155 989 819
Less: amounts written off	-	(155 989 819)
	<b>1 726 375</b>	<b>-</b>

### 55. Fruitless and wasteful expenditure

Opening Balance	1 404 954	18 677 781
Incurred in the current year	29 148 529	28 476 162
Less: amounts written off	(30 553 483)	(45 748 989)
	<b>-</b>	<b>1 404 954</b>

#### Details of fruitless and wasteful expenditure

Interest charged by Eskom	28 712 206	27 969 990
Interest and penalties charged by SARS	-	468 327
Interest charged by Telkom	27 349	26 604
Interest charged by sundry creditors	408 974	11 241
	<b>29 148 529</b>	<b>28 476 162</b>

No disciplinary process have been taken by the municipality due to the fact that the expenditure was incurred as a result of cash flow constraints.

### 56. Irregular expenditure

Opening balance	79 005 262	79 005 262
Add: Irregular Expenditure - current year	34 652 468	48 385 134
Less: Amounts written off	(113 657 730)	(48 385 134)
	<b>-</b>	<b>79 005 262</b>

#### Details of irregular expenditure – current year

Services received without contracts	34 652 468	39 507 117
Employees of the state	-	8 878 017
	<b>34 652 468</b>	<b>48 385 134</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 57. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Amount paid - current year	-	3 875 580
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#### Material losses incurred

Distribution losses on electricity(units)	192 975 799	192 431 461
Distribution losses on water(units)	4 984 218	7 919 733
	<b>197 960 017</b>	<b>200 351 194</b>

#### Audit fees

Amount paid - current year	4 662 721	4 461 405
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#### South African Revenue Services

PAYE	49 476 274	45 651 035
SDL	3 374 804	3 193 199
UIF	4 762 265	4 449 981
VAT paid/(refund)	(12 910 918)	2 939 982
	<b>44 702 425</b>	<b>56 234 197</b>

#### VAT

VAT payable	67 586 964	61 824 297
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VAT output payables and VAT input receivables are shown in note 22.

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Van Huyssteen NC	2 268	745	3 013
Mnguni JM	1 012	4 059	5 071
Buthelezi TM	960	4 256	5 216
Ntuli FB	2 103	1 189	3 292
Mkwanazi DS	2 693	13 574	16 267
	<b>9 036</b>	<b>23 823</b>	<b>32 859</b>

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Molo SJ	4 576	2 960	7 536
Mdlovane NE	484	266	750
Ntuli FB	41	227	268
Khayiyana MM	385	90	475
Mkwanazi DS	1 721	8 067	9 788

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 57. Additional disclosure in terms of Municipal Finance Management Act (continued)

Mngomezulu DC	1 305	909	2 214
Masango NR	1 052	1 964	3 016
Manzana LF	1 307	41 186	42 493
	<b>10 871</b>	<b>55 669</b>	<b>66 540</b>

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

#### Incident

Emergency	13 154	3 434 970
Impractical to follow process	3 234 092	228 976
Sole Supplier	-	760 941
	<b>3 247 246</b>	<b>4 424 887</b>

### 58. Budget differences

#### Material differences between budget and actual amounts

The changes in the original budget, final budget and actual figures are as a result of virements and transfers done to cater for year end accrual journals, impairment journals, land fill site finance cost and year end assets journals. All budget fluctuations above 10% in comparison to actual results for the year were considered material and are explained below:

#### Expenditure

##### Bulk purchases

Increase in demand caused by the increase in population, as well as the distribution losses and the annual increase of the Eskom tariffs.

##### Collection cost

Increase is due to all activities that were put in place as part of the revenue enhancement plan to improve debt collection

##### Debt impairment

Write-off of the traffic fines debtors

##### Depreciation and impairment

Change in estimates as disclosed in note 51 of the financial statements and also disposal of assets.

##### Finance costs

Finance charges incurred mainly as a result of the Eskom interest which was not budgeted for.

##### Repairs and maintenance

Cash flow constraints, resulting in low spending.

##### Administration and management fee

Administration fees mainly relates to cut-off and reconnection fees earned. Less income realised than anticipated.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 58. Budget differences (continued)

#### Income from agency services

Less income realised than anticipated due to decrease vehicle registrations and closure of licensing office due to ENATIS system technical interruptions.

#### Insurance claims received

Less insurance incidents claims reported in the current year.

#### Interest earned on investments

This is due to the increase in interest rate .

#### Interest on outstanding debtors

Increase in the debtors hence the increase in interest charged.

#### Differences between budget and actual amounts basis of preparation and presentation

The annual financial statements for the municipality are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements does not differ from the budget, which is approved on accrual basis.

#### Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes refer to statement of comparison of budget and actual amounts from pages 10 to 13 in the financial statements.